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November 17, 2005

TO: Transportation Authority of Marin Commissioners

FROM: Dianne Steinhauser, Executive Director

RE: Strategic Plan Update – Agenda Item 5

Executive Summary

The upcoming adoption of the 2006 Measure A Strategic Plan will assign estimated available sales tax revenues to the Measure A strategies and substrategies as adopted by voters in the Measure A Expenditure Plan. Since May of 2005, the Executive Committee has reviewed and provided direction on various financial assumptions, to be incorporated into the Strategic Plan. At its recent September and October meetings, the Executive Committee provided direction on both Guiding Principles and detailed policies and procedures that reflect the spirit and direction provided in the voter approved Expenditure Plan. Staff presents the work to date to the full TAM Board, in preparation for the upcoming release of the Draft Strategic Plan, scheduled for February 2006.

Recommendation: The Tam Board will hear a presentation of the Strategic Plan efforts to date, and is asked to provide feedback.

Background

The Sales Tax Expenditure Plan, approved by the voters in November 2004, provides \$331.6 million in local transportation sales tax (Measure A) revenue for a number of eligible strategies. The Strategic Plan will serve as the overall roadmap for the programming of the Measure A funds to the strategies, as well as the financial structure for the management of the Measure A revenue. Per the Sales Tax Expenditure Plan, the Authority shall prepare a Strategic Plan every two years.

The main components of the Strategic Plan include:

- Overall guiding principles for the plan;
- Anticipated available sales tax revenue over the 20-year life of the Measure A program;
- Policies & procedures that guide TAM and project sponsors on the management and use of Measure A funds;

- Programming of anticipated revenues and expenditures, by fiscal year, to each of the Strategies in the Expenditure Plan and
- Description of projects identified to date to receive Measure A funds.

Staff has been working with the Executive Committee since May on the development of the Strategic Plan. Guiding principles, anticipated sales tax revenue and policies and procedures guiding TAM and project sponsors have been discussed to date. A summary of those discussions is presented below. The final adoption of all of these elements will occur after considering public comment when the Draft Strategic Plan is released in early Spring of 2006.

Guiding Principles

During the Sales Tax Expenditure Plan development, a number of themes emerged on how the sales tax funds should be expended. The Strategic Plan will include Guiding Principles to implement the themes provided in the Expenditure Plan approved by the voters. These Guiding Principles will guide the Strategic Plan policies and programming recommendations.

To date, the Executive Committee has recommended the following Guiding Principles:

- 1) Distribute funds equitably throughout the County;
- 2) Maximize leveraging of outside fund sources;
- 3) Maximize the cost effective use of sales tax dollars;
- 4) Support timely and cost-effective project delivery, ensuring all strategies progress toward measurable improvements; and
- 5) Promote high environmental and conservation awareness.

Available Sales Tax Revenue

The sales tax revenue available to each strategy in the Expenditure Plan depends on several factors. The key factors considered to date that will impact the amount of available revenue are described below.

Forecasting Methodology

A range of forecasts for TAM sales tax receipts during the life of the tax has been developed. The forecasts have been developed based upon a combination of real and inflationary growth estimates. Applying these forecasts to the estimated base of taxable sales in Marin County

results in projections of the revenues TAM and its recipient agencies can use for planning future programs and projects.

A low, medium and high forecast of sales tax revenues was developed, providing a range of revenues TAM could expect to receive. The Executive Committee recommended that the conservative, low forecast, be assumed for the first Strategic Plan, which presents a prudent forecast for a new agency and new tax. Due in part to the uncertainty of future economic conditions, the lack of a district tax revenue history in Marin, and the different rules used to calculate a transportation sales tax, using the low forecast would assist TAM with ensuring that its planned allocations to the Strategies do not outpace revenues, particularly in the near term. Based on Measure A sales tax collections to date, there is no reason to increase the forecasted rate of growth for the current fiscal year.

It should be noted that the biennial Strategic Plan updates will provide TAM with an opportunity to revise the sales tax forecasts in the future. Actual revenue and expenditure data will be added to the forecast, which, through the effects of compounding, could impact future revenue estimates. Revised economic analyses could suggest that more robust growth forecasts should be applied at that time.

Debt Financing

The Expenditure Plan allows for the use of debt financing to expedite the delivery of projects. The Expenditure Plan assumes that a \$30 million bond will be issued in the first year of the sales tax program. The cost of issuance and annual debt service were taken “off-the-top” of the revenue forecast in the plan, as mentioned in the plan. It was estimated that \$25 million in debt financing proceeds would be used for the 101 Gap Closure project and that an additional \$5 million would be used for other eligible capital projects.

For purposes of estimating the amount of sales tax revenues available to Strategies in the initial Strategic Plan, the cost of issuance and annual debt service are taken off the top to preserve debt capacity for such time as it is needed. Under the current funding plan for the 101 Gap Closure project, debt will not be needed in the first year of the sales tax program. The assumptions related to the actual amount of debt to be issued and the debt structure will be considered at a later date as the Strategic Plan financial model is drafted and additional information regarding funding needs on the Gap Project is available.

Reserves

The Expenditure Plan provides the Authority with the ability to set aside a reserve fund of up to 10% of annual receipts from the tax for contingencies, to ensure that the projects included in the plan are implemented on schedule. The reserve also allows for fluctuations in annual sales tax receipts that might negatively impact ongoing operating programs.

A Reserve policy will be considered by the Board at a later date. For purposes of calculating the sales tax available to Strategies, a 5% annual reserve was assumed appropriate, to set aside for the first 5 years of the 20 year period.

Staffing and Administration

The Expenditure Plan establishes a limit of 1% of the sales tax revenues for salaries and benefits of administrative employees. Other administrative costs are limited to 4% of the sales tax revenues. For purposes of determining sales tax revenues available to Strategies, these amounts are taken "off the top". Additional program and project management fees attributable to the strategies are applied to the individual strategies.

Interest

Policies addressing interest earnings and other financial issues will be adopted by the Board as part of the adoption of the Strategic Plan. It was discussed with the Executive Committee that to the extent that there is a fund balance in the Sales Tax revenue account, interest will accrue to the fund. The Executive Committee recommended that interest earnings will be accounted for by the strategy or substrategy generating it. The Board will then have the discretion to allocate it according to need, either within or outside the strategy generating it.

Policies & procedures for TAM and Project Sponsors

The Strategic Plan will include policies and procedures for the use and management of Measure A funds. From these policies and procedures, funding agreements will be developed between TAM and sponsors claiming Measure A funds. A number of specific policies and procedures have been considered by the Executive Committee addressing eligibility for funding, application process, disbursement of funds, monitoring and reporting requirements and eligible and ineligible costs. All items are being considered in the context of the Guiding Principles. Details of the policies and procedures will be presented at a future Board meeting.

Strategic Plan Schedule

Presently, the anticipated schedule calls for the TAM Board to notice for public hearing the draft Strategic Plan in April 2006, followed by adoption of the plan in June 2006.

In order to meet the above timeline, staff continues to monitor the scheduled adoption date by MCTD of the Short Range Transit Plan and is working with the TAC and the MPWA to reach agreement on Major Road projects to be prioritized for funding in the Strategic Plan.